

After the Bubble... Life in a Post-9/11 World

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Uncertainty Abounds

- Economy
- Electricity demand
- Electricity supply
- Financing
- Environmental Regulations
- Energy policy

Economic Uncertainty

Bad News

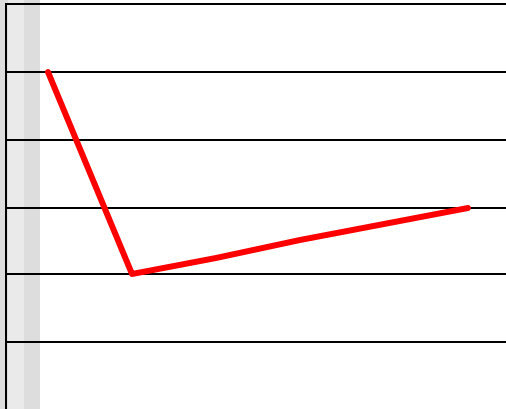
- Stock market roller coaster
- Rising unemployment, rising consumer prices
- Plunging market valuations
 - Particularly for many energy companies
- “Synchronous” global economy
 - If U.S. economy is down, rest of world’s economies are likely down as well

Economic Uncertainty

Good News

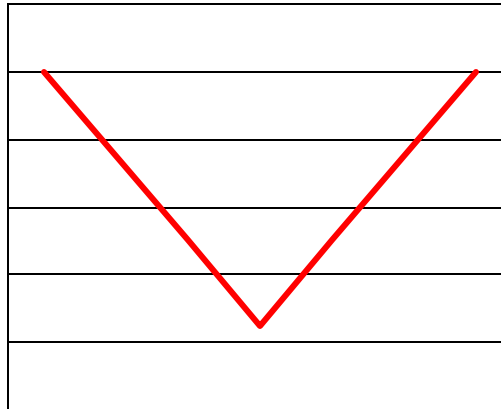
- 1Q 2002 GDP up 6% vs. 1.7% gain in 4Q2001
- ISM factory survey up to 55.6 for March
 - Second straight month of expansion following an 18- month slump
- Industrial production up 0.7% in March
 - Third straight monthly increase
- Spending on construction rose 1.1% in February
 - Highest since Nov. 2000
- More economists are raising their growth forecasts, 3-4% for 2002

What Shape Will Recovery Take?



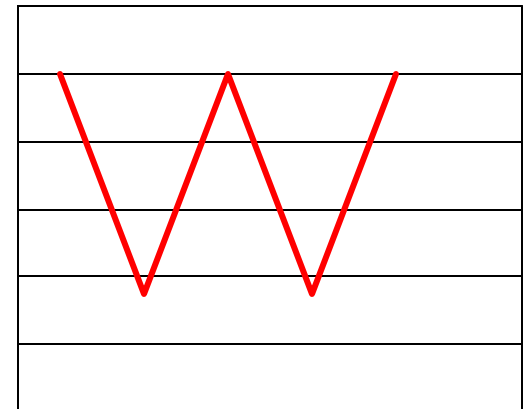
The 'L'

Long, slow recovery



The 'V'

Quick recovery



The 'W'

Double-dip recession

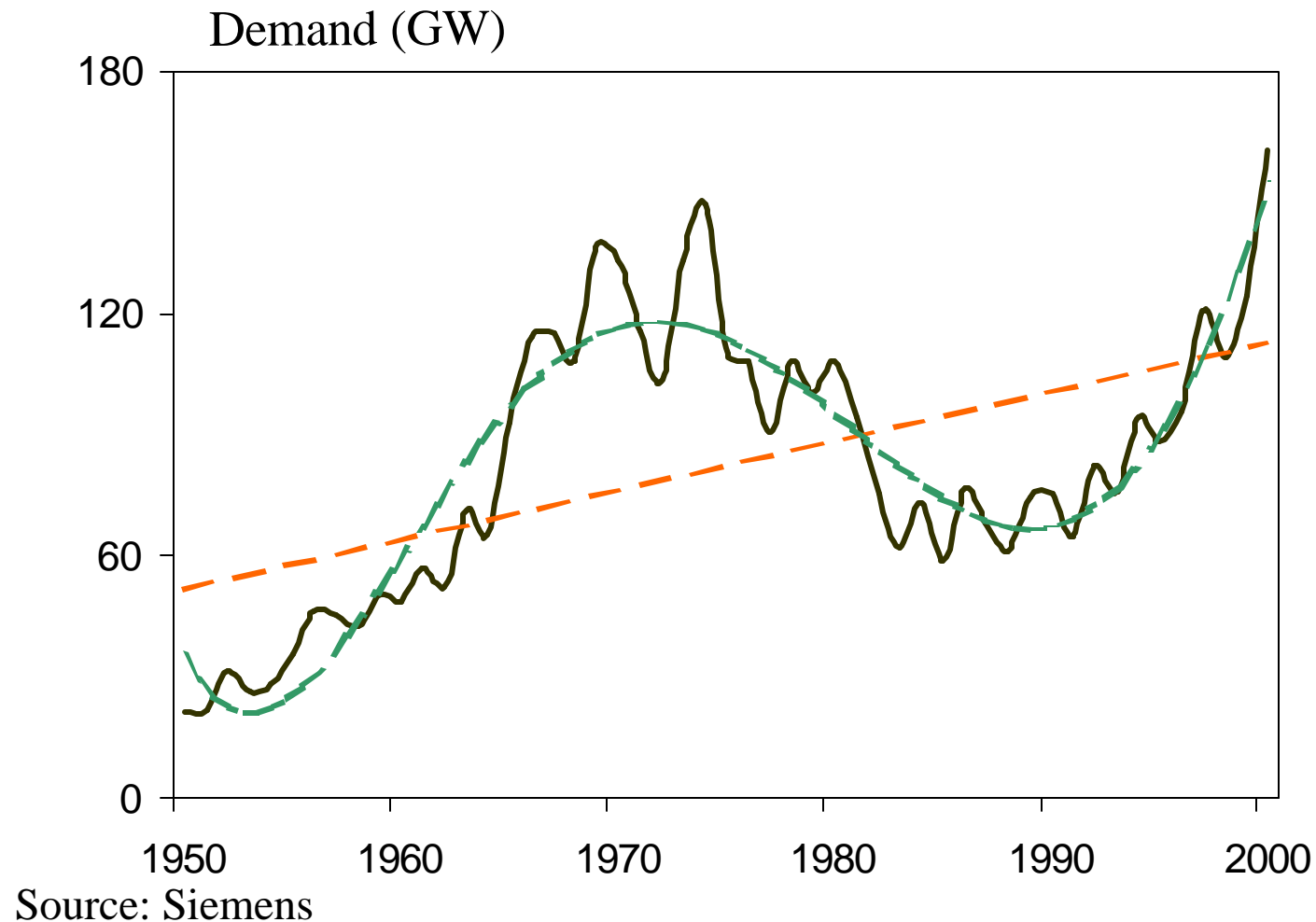
The Fed Bank Limerick

There once was an economy on the ropes,
That kept dashing our recovery hopes.
When we made the concession
To call it a recession,
It turned up, and we felt like dopes.

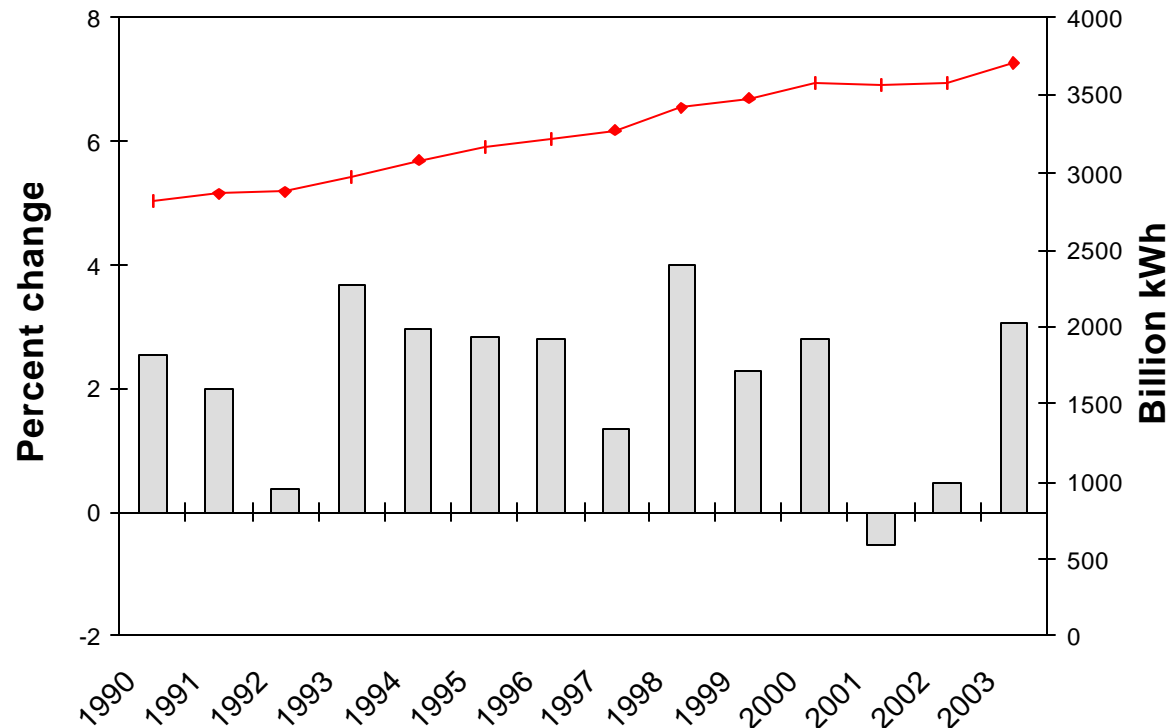
Robert McTeer

Dallas Fed Bank President

Energy Demand – Positive but Cyclical



Reaction to Decline in Demand?

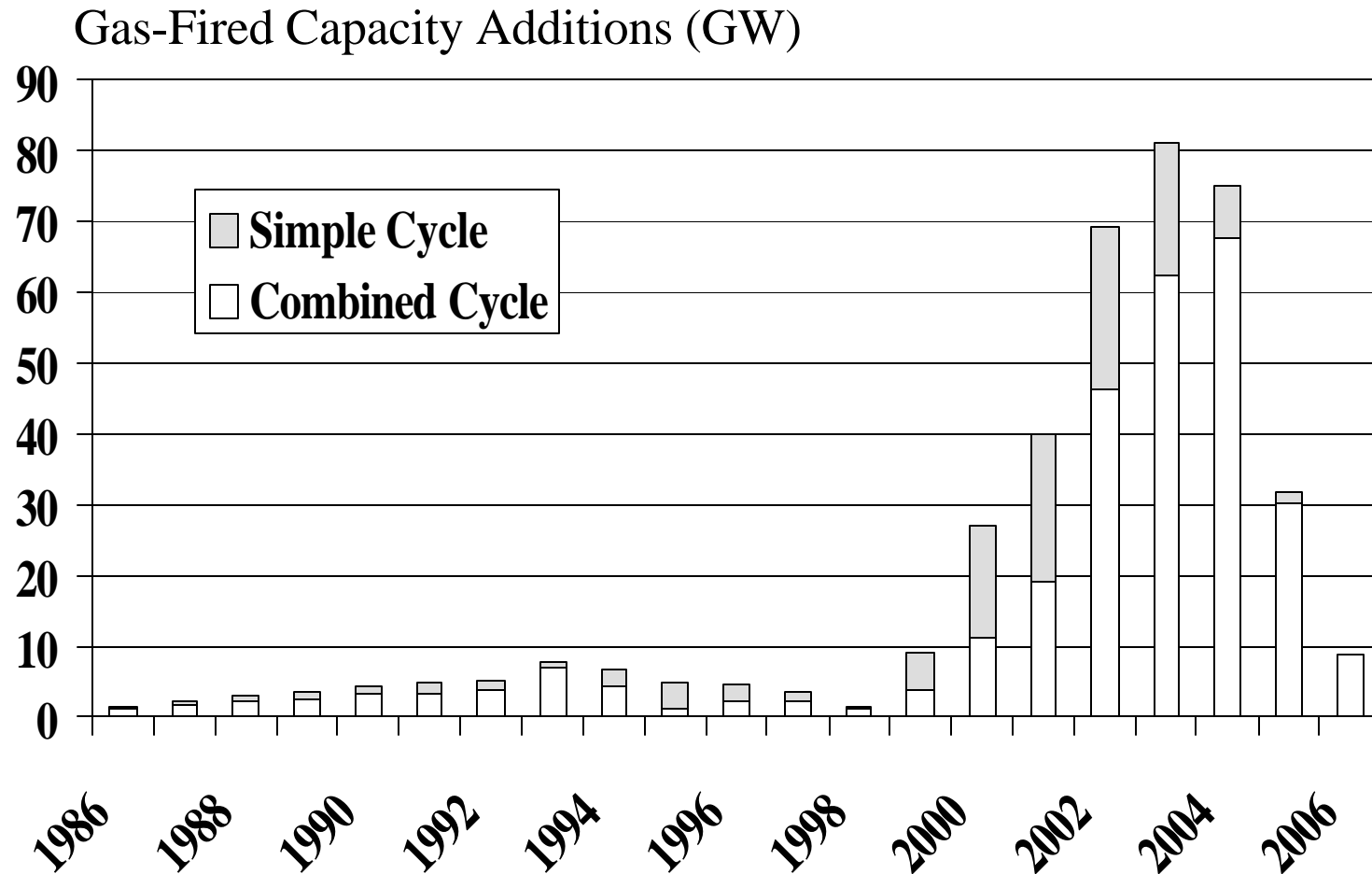


- Short-term demand growth negative to slightly positive
- Long-term demand growth steady
- More acute reactions to changes in demand

Electricity Supply - After the Boom

- Almost 10 years worth of generation capacity ordered in last 3-4 years
 - 95% gas-fired
- Overbuild scenario?
 - Local level maybe, national level, probably not
- Generation mix changing

Tracking the Boom



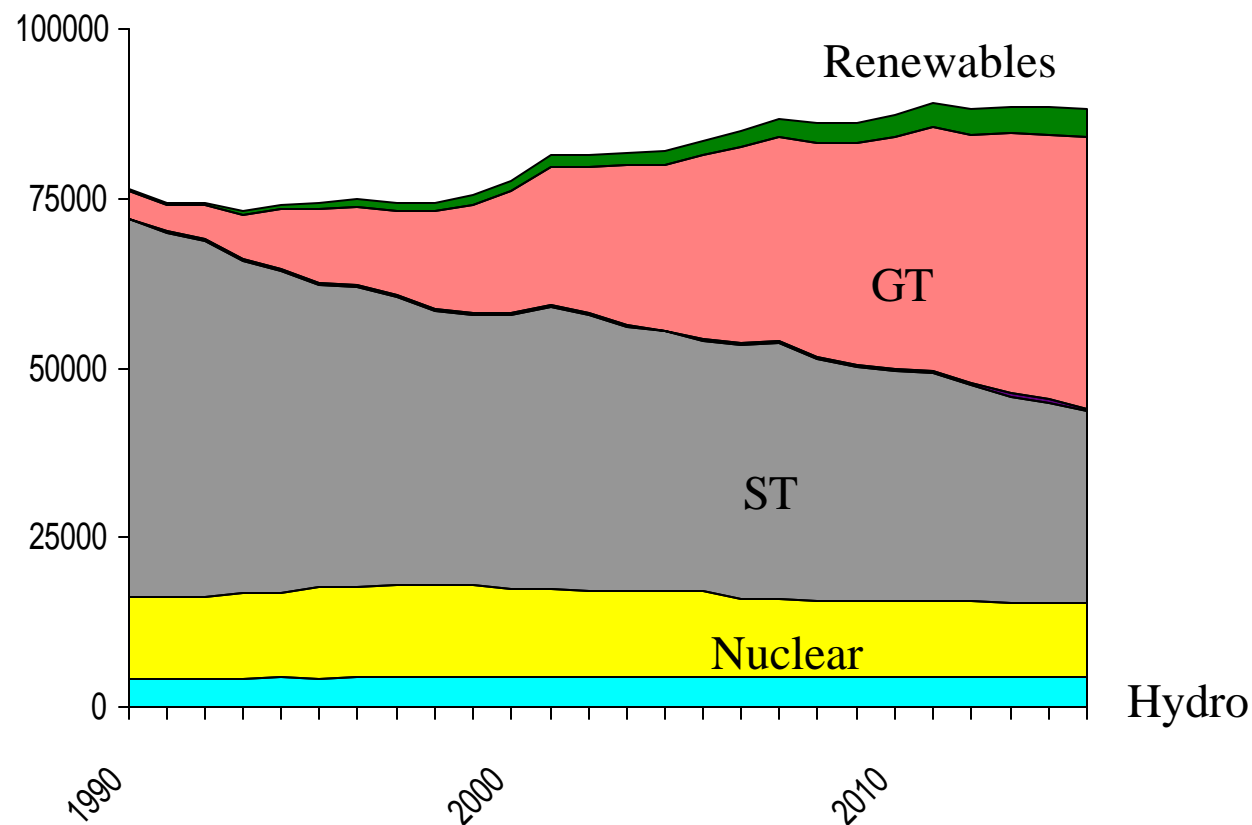
Source: Energy Ventures Analysis

Electricity Supply – A New Pie?

- Gas boom over
 - Lots of construction, but little new development
 - Fuel Use Act deja vu
- Coal blip?
 - Piece of pie getting smaller
 - Environmental concerns
 - Viability of new development in current market
- Nuclear
 - Majority of existing units relicensed
 - No new orders likely for at least a decade
- Renewables
 - Piece of pie will get bigger because of public and political pressures
 - Nothing close to the 20% by 2020 plan

Competition and Deregulation Changing Generation Mix

Capacity Development in the U.K., 1990-2015 (MW)



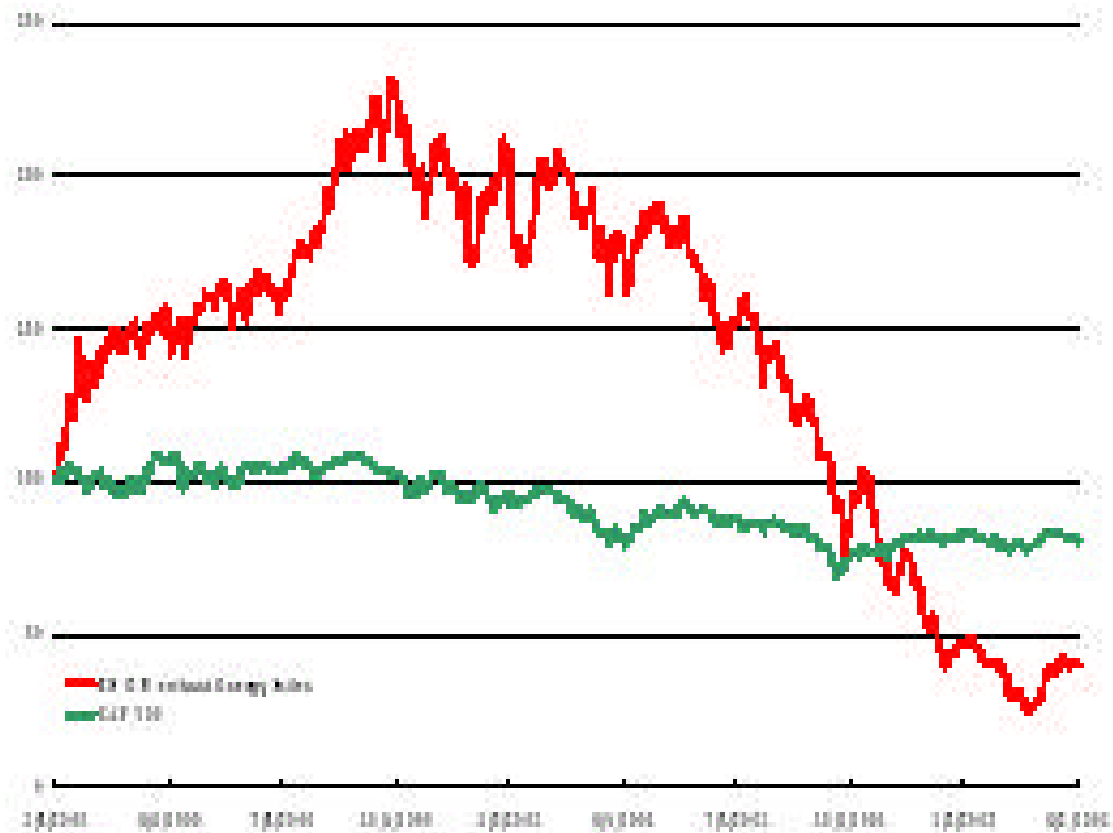
Supply/Demand Relationship More Complex

- Historically, supply tracked demand, which tracked economic growth
- Now, many more factors impact supply/demand relationship:
 - Economic growth
 - Deregulation
 - Transmission congestion
 - Merchant power sector
 - Financing
 - Power reliability

Financial Uncertainty – Wallets are Closing

- Financial/investment community shaken
- Wall Street infatuation
 - California crisis
 - Assetophobia
 - Riskophilia
- Enron fallout

RWR Merchant Energy Index vs. SP500



Source: Bloomberg

Project Cancellations

- Some estimates of more than 100,000 MW
- 20,000 MW in first quarter 2002
- Pullbacks due in part to "...loss of easy access to financial markets" – EVA
- But...construction continues: The snake still needs to eat the elephant

Environmental Uncertainty

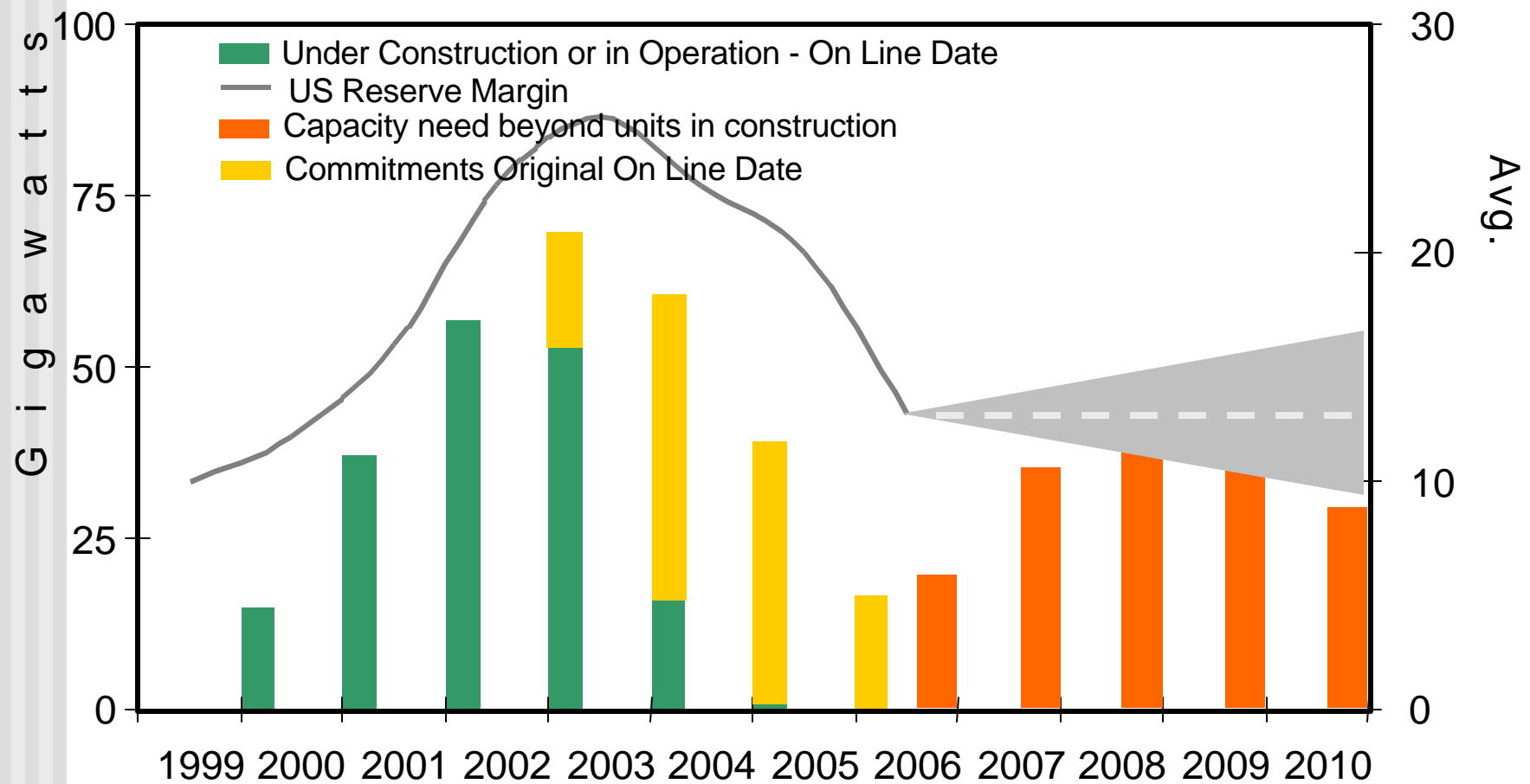
- Transition from Clinton's EPA to Bush's EPA has been rocky

Issue	Analysis
3P vs. 4P	3P clear winner
NSR	Eased, but maybe not as much as some would like
Ozone and PM2.5 standards	They're coming...
Renewable portfolio standards	Driven at state level

Energy Policy

- HR 4 vs. S 517
 - House bill more heavily weighted toward supply
- Many “big” issues will likely be off the table
 - CAFE standards
 - ANWR
- Wide philosophical difference endanger prospects
 - e.g., renewable portfolio standard

Where Are We Headed?



Source: Siemens

Conclusions

- Demand follows upward trend, but more volatile
- Shorter investment horizons vs. fuel diversity
- Competition and other pressures will change generation mix
- End of boom will result in greater focus on existing assets
- Energy policy prospects still uncertain

Bottom Line: Uncertainty accentuates the need for multiple technologies and multiple generation sources